

CITY OF MILPITAS
CITY COUNCIL UTILITY RATE SUBCOMMITTEE

APPROVED MEETING NOTES

Tuesday, February 14, 2006
City Hall, 1st Floor Committee Room

- I. Mayor Esteves called the meeting to order at 6:07 p.m.
- II. Attendees: Mayor Esteves, Greg Armendariz, Emma Karlen, and Marilyn Nickel.
- III. Announcements - There were no announcements.
- IV. Agenda approval was deferred awaiting arrival of Councilmember Livengood.
- V. Approval of minutes from June 28, 2005 was deferred awaiting arrival of Councilmember Livengood.
- VI. Citizens Forum
No Citizens present.
- VII. Water, Recycled Water, and Sewer Rates Fund Balance Update
Greg Armendariz showed a power point presentation. Key points included new information since March 2005 consisting of:
 - a. Water Fund:
 - 1. expected rate increase for SFPUC from planned \$1.02 to \$1.11 per hundred cubic feet (hcf)
 - 2. expected rate increase for SCVWD from planned \$1.20 to \$1.23 per hcf
 - 3. expected decrease in FY 05-06 customer sales volume from planned 4,837,238 hcf to projected 4,500,428 hcf.; drop is sales attributed to both residential and industrial customers
 - 4. estimated decrease in water fund balance at July 1, 2006 from planned \$3,536,715 to \$2,695,597
 - 5. estimated decrease in water fund balance at July 1, 2007 from planned \$3,490,438 to \$2,210,899
 - b. Recycled Water Fund
 - 1. expected increase in FY 05-06 customer sales volume from 376,752 hcf to 391,906 hcf
 - 2. estimated increase in recycled water fund balance at July 1, 2006 from planned \$1,700,497 to \$1,975,994
 - 3. estimated increase in recycled water fund balance at July 1, 2007 from planned \$2,040,653 to \$2,337,096

c. Sewer Fund

1. no changes to planned WPCP expenses for FY 05-06
2. expected increase for WPCP from \$5,105,921 to \$5,160,000
3. estimated decrease in sewer fund balance at July 1, 2006 from planned \$3,174,901 to \$2,339,607; funding for a couple of capital improvement projects was advanced from 06-07 to 05-06
4. estimated decrease in water fund balance at July 1, 2006 from planned \$1,603,902 to \$2,400,872

The following information was provided in response to questions:

1. Staff has not received any feedback from residents on the rates and the number of late fees have dropped.
2. The reduction in the water fund balance is due to both a decrease in sales volume and an increase in cost to City to purchase water. Objective is to increase the fund balance for capital improvement projects.
3. The fund balance is cumulative from year to year.
4. Fund balances are available for emergency capital projects. The Financial Utility Management Plan identified both planned future infrastructure replacement and the need to set aside emergency funds. Revenues and expenses were reviewed which resulted in stabilized rate increases in order to manage both planned and unplanned expenses.

VIII. Main Sewage Pump Station Funding

Greg Armendariz showed a power point presentation. Key points included:

1. The pump station conveys all Milpitas sewage to the regional wastewater treatment plant 2 miles away; operates 24 hours per day/365 days per year; and consists of a solids grinder station, wet well with pumps, electrical and instrument control system, emergency power, and metering devices.
2. The pump station was constructed in 1965 as part of the Milpitas sewage treatment plant and was converted in 1975 to pump sewage to the regional plant for treatment.
3. Average sewage flow is 9.3 million gallons per day (mgd) and peak is 13.9 mgd.
4. Existing deficiencies include aging equipment and infrastructure, need for additional wet well capacity for Midtown and Transit Area Growth, and vulnerability to seismic events that could damage the pump station substantially and repairs taking several months. The cost of seismic retrofit exceeds 50% of the replacement cost.
5. The project currently has \$4 million funding and design is proceeding. Additional funds are needed for the construction. Staff evaluated three funding scenarios. Delaying capital improvement projects for 3-5 years will result in potential failures and continued high operation and maintenance costs. Deferring treatment capacity purchase at WPCP is not feasible as purchase is needed to accommodate the Midtown Specific Plan.
6. Bonding allows the City to move forward with critical capital improvement programs, pump station replacement, and purchase of capacity. Annual debt

service is estimated at \$900,000 for about \$9-11 million bond. The bond process takes about 4-6 months.

7. Next steps: Finance Subcommittee review occurred on Feb 1, 2006. Utility Rate Subcommittee review occurred on Feb 14, 2006. Bond proceeds to be included with Capital Improvement Program approval for June 2006. Bond sales to occur June-Sept 2006 with project bidding and construction shortly thereafter.
8. Recommendations: Note receipt and file report on water, recycled water, and sewer fund balances. Conceptually approve Bonding for Main Sewage Pump Station Project.

The following information was provided in response to questions:

- a. The City would retain a financial advisor to initiate the bond process. The work includes developing a bond structure and performing a financial analysis to insure the revenue stream is sufficient to pay the debt service. Bonding does not need to be on the ballot as the bonds are secured by sewer revenues. They are not general obligation revenues.
- b. The pump station construction documents will be available by December 2006.
- c. Other funding alternatives have been exhausted. Grants are typically not available for enterprise funds. Developers will provide some funding as well; KB has already paid. Staff will review the long-term funding in more detail and include revenues as new construction becomes occupied. Staff will also look at a two tier or blended fee structure to accommodate general plan amendments.

Mayor Esteves stated that he supports conceptual approval for bonding. Greg will provide a report to Councilmember Livengood and request his concurrence.

IX. Other Business - None

X. Adjournment - The meeting was adjourned at 6:50 pm.